

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE INSPECTOR GENERAL**

**HOME PURCHASE ASSISTANCE PROGRAM  
FINANCIAL STATEMENT AUDIT  
FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2001**



**CHARLES C. MADDOX,  
ESQ.  
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Office of the Inspector General

Inspector General



October 15, 2003

Stanley Jackson  
Director  
Department of Housing and Community Development  
801 North Capitol St., N.E., Suite 835  
Washington, D.C. 20002

Dear Mr. Jackson:

Enclosed is our report (OIG No. 03-1-08DB) summarizing the results of the financial statement audit of the Home Purchase Assistance Program for the year ended September 30, 2001. The Auditor's Report on Financial Statements presents an unqualified opinion. The audit was conducted by contract under the purview of the Office of the Inspector General.

The Independent Auditor's Report identified a reportable condition involving internal controls over financial reporting that is considered a material weakness. This reportable condition and other findings relative to the timely recording, processing, and reconciliation of loan data have been identified in previous years' audit reports and continue to be reported as internal control weaknesses associated with the Home Purchase Assistance Program. DHCD has concurred with these past findings and has cited actions that they plan to take to address these conditions. However, DHCD has not completed the proposed actions.

Generally, audit recommendations should be resolved within 6 months of the date of the final report. Accordingly, we will continue to work with DHCD to ensure that actions to correct deficiencies and address recommendations at DHCD are completed.

If you have questions please call William J. DiVello, Assistant Inspector General for Audits, or me at the number below.

Sincerely,

  
Charles C. Maddox, Esq.  
Inspector General

CCM/cj

Enclosure

Stanley Jackson, Director

October 15, 2003

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Stanley Jackson, Director

October 15, 2003

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2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

To the Inspector General of the Government of the District of Columbia  
The Management of the Department of Housing and Community  
Development of the Government of the District of Columbia:

We have audited the accompanying balance sheet of the Home Purchase Assistance Program (HPAP) of the Government of the District of Columbia (the District) as of September 30, 2001 and the related statement of revenues, expenditures, and changes in fund balance for the year then ended. These financial statements are the responsibility of the management of the District's Department of Housing and Community Development. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements present only the financial activity of the HPAP and are not intended to present fairly the financial position and the results of operations of the Government of the District of Columbia as a whole in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Home Purchase Assistance Program as of September 30, 2001, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2003 on our consideration of the HPAP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

**KPMG LLP**

August 18, 2003



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**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM**

Balance Sheet

September 30, 2001

**Assets**

Cash and investments held by D.C. Treasurer	\$ 8,138,985
Accounts receivable (note 2)	485,731
Mortgages receivable, (net of allowance for uncollectible mortgages of \$30,337,524) (note 3)	<u>11,614,064</u>
Total assets	<u>\$ 20,238,780</u>

**Liabilities and Fund Balance**

Liabilities – accounts payable and accrued expenses	\$ 1,034,925
Fund balance	<u>19,203,855</u>
Total liabilities and fund balance	<u>\$ 20,238,780</u>

See accompanying notes to financial statements.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM**

Statement of Revenues, Expenditures and Changes in Fund Balance  
Year ended September 30, 2001

Revenues – interest income	\$ <u>188,198</u>
Expenditures:	
Administrative	383,519
Bad debts	<u>135,460</u>
Total expenditures	<u>518,979</u>
Deficiency of revenues under expenditures	(330,781)
Fund balance, beginning of year	<u>19,534,636</u>
Fund balance, end of year	\$ <u><u>19,203,855</u></u>

See accompanying notes to financial statements.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM**

Notes to Financial Statements

September 30, 2001

**(1) Summary of Significant Accounting Policies**

**(a) HPAP Operations**

The Home Purchase Assistance Program (HPAP) was established under the District of Columbia (District) Home Purchase Assistance Fund Act of 1978, D.C. Law 2-103 (D.C. Code 45-2201 et seq.). Title 14, Chapter 25 of the D.C. Municipal Regulations (DCMR) provides rules for loans made under the Home Purchase Assistance Program. Title 14, Chapter 25 of the DCMR states that the administration of HPAP shall be the responsibility of the District of Columbia Department of Housing and Community Development (DHCD). The purpose of the District of Columbia Home Purchase Assistance Program is to:

*Provide financial assistance to lower and moderate income residents of the District;*

*Enable lower and moderate income residents to purchase decent, safe, and sanitary homes within the District;*

*Enable lower and moderate income residents to make a down payment toward the purchase of a home within the District, and;*

*Enable lower and moderate income residents to make a share payment or other payment to a housing cooperative to secure occupancy rights to a home within the District as his or her principal place of residence.*

Home Purchase Assistance Program mortgages are generally limited to \$25,000 per household. However, the Director of the DHCD has the authority to increase a mortgage up to \$30,000 under special circumstances delineated in the DCMR, Title 14, Section 2503.

**(b) Basis of Accounting**

HPAP activities are accounted for in the District's general fund, a governmental fund type, which is accounted for the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is when they become both measurable and available). Measurable means the amount of the transactions can be determined, and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, considered by the District to be one year. Expenditures are recorded when the related liability is incurred.

**(c) Cash and Investments held by D.C. Treasurer**

All HPAP cash and investments are pooled in the District's general fund. Cash balances maintained by the District's Treasurer were insured or collateralized with securities held by the District or by its agent in the District's name. Investments maintained by the District's Treasurer include those that are insured or registered or for which securities are held by the District or its agent in the District's name.



**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM**

Notes to Financial Statements

September 30, 2001

**(2) Accounts Receivable**

HPAP has advanced funds to a contractor who processes loan applications and completes loans at settlement. The advances are used to pay for mortgage loans and administrative expenses. The accounts receivable balances outstanding represent unused advanced funds due to HPAP.

**(3) Mortgages Receivable**

Mortgages receivable are presented at the face value of promissory notes. Home Purchase Assistance loans consist of four types: principal-only, unsecured, deferred mortgages, and amortized.

A principal-only mortgage is a loan repaid in regular monthly installments of principal only, without interest for a period of 30 years. These mortgages are usually secured by a lien or subordinated trust on the property purchased.

Unsecured mortgages require repayments subject to the conditions of the loan agreement for which the recipient has signed a promissory note. The note is not secured by a lien on the purchased property.

A deferred mortgage allows the borrower to defer payment of the principal until the property purchased ceases to be the principal residence of the borrower. Deferred mortgages with a closing date subsequent to March 14, 1997 require repayment to begin after five (5) years.

Amortized mortgages are required to be completely repaid over a specific period of time at a predetermined interest rate.



2001 M Street, NW  
Washington, DC 20036

## **Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

To the Inspector General of the Government of the District of Columbia  
The Management of the Department of Housing and Community Development  
of the Government of the District of Columbia:

We have audited the financial statements of the Home Purchase Assistance Program (HPAP) of the Government of the District of Columbia (District) as of and for the year ended September 30, 2001, and have issued our report thereon dated August 18, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Compliance**

As part of obtaining reasonable assurance about whether HPAP's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered HPAP's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. However, we noted a matter, described below, involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect HPAP's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

HPAP has contracted with a financial institution to perform the loan servicing function. It has also entered into an agreement with a community based organization to perform the community outreach, loan application, and loan approval process. Both of these organizations provide HPAP with monthly reports detailing activity. Prior to fiscal year 2001, HPAP personnel did not use these reports to record information in the general ledger timely. Consequently, the loans receivable balance maintained in the general ledger was not properly updated until the end of the fiscal year.



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A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the Inspector General of the District of Columbia and Department of Housing and Community Development management, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

August 18, 2003





**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
HOME PURCHASE ASSISTANCE PROGRAM**

Financial Statements

September 30, 2001

(With Independent Auditors' Report Thereon)